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Mr. Dean Swingle
Lifecare at Lofland Park
715 King Street
Seaford, DE 19973

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX for June 30, 2006

Dear Mr. Swingle,

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey), for Lifecare at Lofland Park (the Facility) for the year ended June 30, 2006, and issued our report thereon dated November 17, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

There were no deficiencies in internal control over financial reporting that we consider to be material weaknesses, nor were there any instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

However, during our audit, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Facility's internal control in our report dated November 17, 2008. This letter does not affect our report dated November 17, 2008 on the Facility's Cost Report and Survey

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CONDITION 06-01

Condition: In its plant ledger, the Facility included several assets which cost less than $5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. Further, the added volume of assets increases the recordkeeping burden of maintaining the plant ledger.

Criteria: The allowable capitalization minimum for Medicare and Medicaid purposes is set as a guideline for Facility's capitalization policy.

Cause: Management has not followed the capitalization guidelines consistently.

Effect: By capitalizing costs under $5,000, the Facility is understating costs for which they could be reimbursed in the current year's cost report. In addition, by spreading the depreciation expense over several years, the following years' costs will be overstated.

Suggestion: Management should consider increasing its capitalization floor to $5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger. Management has informed us that they have since implemented this policy.

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CONDITION 06-02

Condition: Certain assets selected for testing which were acquired during the fiscal year ended June 30, 2006 had useful lives that differed from the AHA guidelines.

Criteria: The useful lives of assets for for Medicare and Medicaid purposes is set as a guideline for Facility's capitalization policy

Cause: Management has not followed these guidelines consistently.

Effect: There is the potential for overstating or understating the costs for the year depending on the various lives chosen for the assets.

Suggestion: Management should assign useful lives consistent with AHA guidelines. Management have informed us that they have since implemented this policy.

CONDITION 06-03

Condition: Certain employees selected for testing were paid for overtime that did not match their timecards.

Criteria: Proper overtime procedures should involve checking the approved timecards against what is reported and paid on the payroll registers and any differences investigated and reconciled.

Cause: The payroll registers did not appear to have been reconciled to the timecards to check for errors.

Effect: This could result in an overstatement or understatement of costs. In addition, if the payroll registers are not being reconciled back to the timecards, the potential for larger errors increases.

Suggestion: The differences were immaterial (less than one hour) and no adjustment has been proposed. Management has since implemented a new timekeeping system which should eliminate these differences, and will carefully review payroll and timecards for errors prior to submission.

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CONDITION 06-04

Condition: The original Medicaid Cost Report was submitted prior to the completion and submission of the Medicare Cost Report. As a result, the Medicaid Cost Report utilized the prior year's Medicare Cost Report for allocating hospital overhead. This issue was also raised during the audit of the Facility's Medicaid Cost Report for the year ended June 30, 2000.

Criteria: Costs allocated on the Medicaid Cost Report should be incurred during the same period covered by the Cost Report.

Cause: The Medicare Cost Report had not been filed by the submission date of the Medicaid Cost Report, consequently the numbers from the June 30, 2005 Medicare Cost Report were used to complete the June 30, 2006 Medicaid Cost Report.

Effect: Using the prior year's Medicare Cost Report could result in significant under or overstatement of costs on the current year's Medicaid Cost Report.

Suggestion: It is the Facility's responsibility to prepare and submit an amended Medicaid Cost Report each year upon the finalization of its annual audit and Medicare Cost Report.

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CONDITION 06-05

Condition: The Facility included a percentage of time for the Director of Nursing (20%) and administrative nurses (30%) as patient centered hours on the Nursing Wage Survey, but the related salary and benefits expense were not allocated out of Administrative Salaries on the Cost Report.

Criteria: The Medicaid Cost Report instructions state that the portion of salaries and wages paid to Administrative Nurses for that proportion of their time spent in direct care or the supervision of direct care nursing staff should be included in Line 1b. In addition, their benefits associated with these amounts should be reported on Line 2.

Cause: The patient centered time as reported on the Nursing Wage Survey was not adjusted out of Lines 24 and 25 on the Medicaid Cost Report.

Effect: This resulted in an overstatement of costs in the Administrative Cost center, and an understatement of costs in the Primary Patient Cost center.

Suggestion: Management should review the basis for determining the percentage of time the Director of Nursing and the Administrative Nurses perform patient centered functions. Provided the percentage of time is properly documented, management should allocate the related salary and benefits expense to the appropriate cost centers.

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CONDITION 06-06

Condition: During our review of employee benefits, we noted that worker's compensation was not included in the benefits allocation. The Facility reimburses the Hospital for worker's compensation, malpractice and general liability. There is no documentation available to support the allocated amount which is required to justify costs claimed for Medicaid reimbursement. This issue was also raised during the audit of the Facility's Medicaid Cost Report for the year ended June 30, 2000.

Criteria: The Medicaid Cost Report instructions state that premiums for workers compensation insurance be included on the appropriate benefit line.

Cause: Worker's compensation insurance was not allocated to the appropriate benefit lines.

Effect: Certain cost centers were overstated and others were understated.

Suggestion: We recommend that the Facility document and reevaluate the method of allocating insurance on a yearly basis. Management has since implemented a policy whereby worker's compensation insurance is directly allocated based on premium costs.

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<u>CONDITION 06-07</u>

Condition: There is no written agreement with the State of Delaware documenting the Medicare-based step-down methodology for allocating overhead among all providers in the consolidated group.

Criteria: The Medicaid Cost Report instructions state that all information necessary to substantial allocations be available for audit. This information would include an agreement relating to the overhead allocation.

Cause: There was no written agreement with the State of Delaware available during our audit.

Effect: If there is no document detailing the methodology for allocating overhead, the method used can be questioned and costs can possibly be disallowed.

Suggestion: We recommend that the Facility and the State of Delaware formally document this agreement in support of past and future cost reports.

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We would be pleased to discuss these comments and suggestions in further detail at your convenience.

McBride, Shopa + Co

Wilmington, Delaware
November 17, 2008